PEPSI-COLA COMPANY 1952 Annual Report

Annual Report 1952

PEPSI-COLA COMPANY — 3 WEST 57th Street, New York City

OFFICERS

Alfred N. Steele, *President*

William B. Forsythe, *First Vice-President*

Herbert L. Barnet, *Vice-President in Charge of Domestic Operations*

Richard H. Burgess, *Vice-President*, Bottle Sales Division

D. Mitchell Cox, *Vice-President*, Sales Promotion

Thomas Elmezzi, *Vice-President*, Manufacturing

Stephen L. Galvin, *Vice-President*, Director of Research

Stephen J. Gullo, *Vice-President*, Product Control Department

Donald M. Kendall, *Vice-President*, National Accounts and Fountain Sales Department

Milward W. Martin, *Vice-President*, Law Department; and Secretary

Henry E. McGovern, *Vice-President*, Equipment Department

Clifford A. Riddle, *Vice-President*, Bottle Sales Division

A. Allen Thomson, *Vice-President*, Sugar Division

Louis E. Nufer, *Treasurer*

Emmett R. O'Connell, *President of Metropolitan Bottling Company, Inc.*

David M. Chenoweth, *President of Pepsi-Cola Company of Canada, Limited*

GENERAL COUNSEL Hays, Podell, Algase, Crum and Feuer

AUDITORS Haskins & Sells

TRANSFER AGENTS The Marine Midland Trust Company of New York
The First National Bank of Jersey City

REGISTRAR The Chase National Bank of the City of New York

Highlights of 1952

AS COMPARED WITH 1951 AND 1950

FINANCIAL RESULTS	1952	1951	1950
Gross Profit on Sales	$35,002,415	$30,216,383	$23,765,879
Income before deducting United States and Foreign Income Taxes	7,834,126	4,192,890	2,544,610
Net Income	3,880,362	2,632,181	1,271,919
Earnings Per Share	67½¢	45¾¢	22¢
Dividend Payment	25¢ plus 10¢	—	—

FINANCIAL POSITION	1952	1951	1950
Current Assets	$23,459,670	$18,538,797	$17,248,807
Current Liabilities	7,048,898	4,830,536	3,784,171
Working Capital	$16,410,772	$13,708,261	$13,464,636
Fixed Assets—Net	13,980,506	15,044,434	10,939,904
Other Assets	3,720,446	3,374,015	3,171,161
Total	$34,111,724	$32,126,710	$27,575,701
Long Term Debt (Including Note Payable To Insurance Company) and Customers' Deposits	5,109,798	5,309,341	5,221,898
Stockholders' Equity	$29,001,926	$26,817,369	$22,353,803

To the Stockholders, Bottlers, and Employees of Pepsi-Cola Company: On behalf of the Board of Directors, I submit this Annual Report of the Company's operations during 1952.

The year 1952 marked the completion of almost three years of Company operation by your new Management, and we are pleased to report that sales were the largest in your Company's history. The preceding page, which highlights the financial results of your Company's operations for the year 1952 as compared with the results for 1951 and 1950, illustrates the continuing improvements in the Company's financial position as we enter 1953.

Financial Review

WORKING CAPITAL

Pepsi-Cola's working capital (the excess of current assets over current liabilities) is at an all-time peak and, equally significant, its cash and government securities, which comprise a very substantial portion of its working capital, also are higher than at any time in the Company's history.

The resulting financial position of the Company is one of increasing strength. Stockholders' equity during 1952 rose from $26,817,369 to $29,001,926, an all-time high.

Pepsi-Cola's long-range program of acquiring the necessary equipment to enlarge distribution and increase sales continued to require substantial outlays of cash. Expenditures in 1952 totaled $3,935,000 for plant construction and improvements and for the acquisition of essential tools of the soft-drink trade: coolers, vending machines, bottles, cases and automotive equipment. Expenditures for similar purposes in 1951 amounted to $8,791,000 and in 1950 to $4,669,000, bringing the Company's expenditures for rehabilitation and development over the period of the last three calendar years to a total of $17,395,000.

Concurrently there has been a further reduction in our Note payable to an insurance company.

EARNINGS

Earnings *before* taxes were $7,834,126 in 1952 compared with $4,192,890 in 1951, almost double the preceding year's and greater than the total of 1951 and 1950 pretax earnings.

Federal and foreign income taxes paid on these greatly increased earnings were more than doubled. These amounted to $3,953,764.

Earnings *after* taxes in 1952 were $3,880,362, compared with $2,632,181 in 1951. Earnings per share of common stock outstanding were 67½¢ in 1952, compared with 45¾¢ in 1951.

We again remind Company Stockholders that

prior to 1950 profits also included the operation of the Company's Cuban sugar subsidiary and its East River facilities for the manufacture of bottle crowns, which your present Management sold in order to concentrate the Company's resources and energies completely on the sale of Pepsi-Cola. The 1952 earnings, except for interest income and a minor sum derived from the sale of liquid sugar to industrial users from the East River refinery, were derived from the manufacture and sale of our soft drinks.

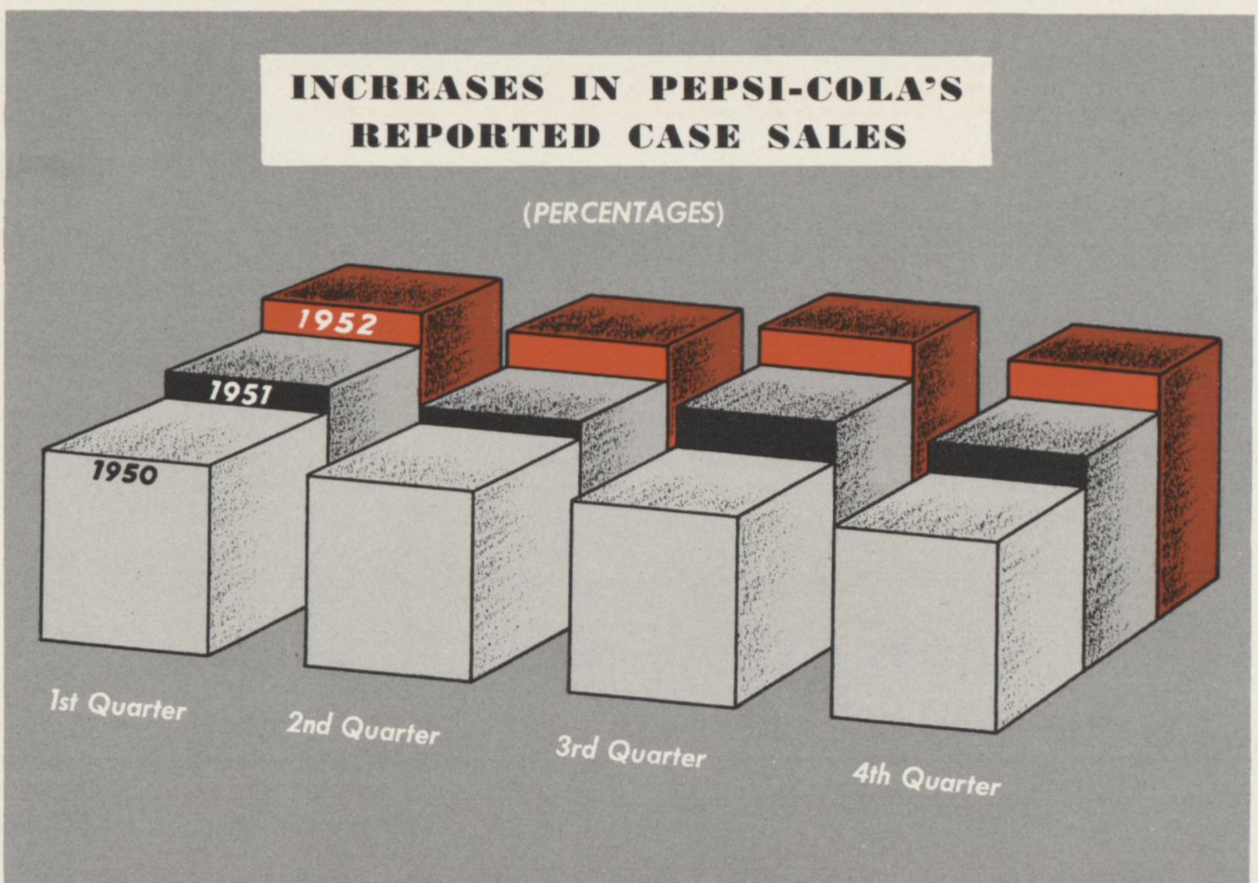
DIVIDEND PAYMENT

Following the change of officers in March, 1950, it was announced that the dividend payments would be omitted until improved sales, earnings, and the general financial position of the Company gave assurance that dividend payments could be resumed on a regular basis, so that cash reserves and current earnings could be utilized to carry out the Company's high-priority plans for rehabilitation and expansion. Accordingly, the Board of Directors at its October, 1952 meeting declared Pepsi-Cola Company's first dividend since December, 1949. An annual dividend of 25¢ a share, plus an extra of 10¢, or 35¢ a share, amounting to $2,010,000, was paid on November 3, 1952, to shareholders of record.

SALES

The year 1952 established a record high for domestic case sales of Pepsi-Cola, with a gain of 17.4 per cent over the preceding year and a gain of 34 per cent over 1950. The sales gain for 1952 assumes special significance when it is considered that Pepsi-Cola's increase is well in advance of the reported increase in sales of the soft-drink industry as a whole.

For a period of 30 consecutive months, commencing with September, 1950, reported case sales of Pepsi-Cola have shown a gain over the corresponding month of the preceding year. This steady and accelerating progress continues in the first months of 1953.



Pepsi's Progress in the United States

BOTTLER EXPANSION

Since Pepsi-Cola Company's growth rests on the success of its hundreds of franchised Bottlers, the progress which Pepsi-Cola Bottlers have made and are continuing to make merits review.

Cooperation between Bottlers and the Company is the key to continued improvement in our sales and earnings. In 1952 Bottlers built 17 new Pepsi-Cola bottling plants in the United States. Seven new plants had been built in 1951. In addition to this expansion through new construction, our Bottlers in 1952 tapped important new markets through enlargement of existing plants, installation of high-speed and larger-capacity equipment, acquisition of vending machines, and further conversion to supply their markets with Pepsi-Cola under our two-size bottle merchandising plan. Bottlers all over the country made increasing investments in the basic tools of our trade: trucks, bottles, cases, cartons, carton racks and coolers.

An interesting instance of their expansion is the purchase in 1952 by Pepsi-Cola Bottlers of 141 million new bottles. They increased their transportation equipment by 15 per cent during 1952. Thirty-three new plants are to be constructed by our Bottlers and in operation by the end of 1953. Plans already formulated and announced by a large number of Pepsi-Cola Bottlers include heavier investments to acquire additional fleets of trucks this year.

Bottler progress is illustrated from reports by 132 Pepsi-Cola Bottlers that Pepsi-Cola consumption in their respective territories had attained in 1952 the highest per capita level in their history. Consumption per capita, the index of the extent to which any soft drink finds public favor, is the number of bottles of Pepsi-Cola consumed in a year on the average by each individual in a territory. In some territories the average per capita—every man, woman, and child—rose above 125 bottles of Pepsi-Cola per year.

A significant example of progress is the achievement in 1952 of Pepsi-Cola's Chicago Bottler. This bottling operation, in the second largest city in the United States, is in a highly competitive market well supplied with every kind of soft drink. Our Chicago Bottler's sales increased by 1,150,000 cases—almost 28,000,000 more bottles of Pepsi-Cola than were sold in the same area in the preceding year.

REGIONAL OFFICES

The new Regional Office organization, developed since 1950, continues to make a significant contribution to the sales gains achieved by Bottlers both in 1951 and 1952. Enlargement of the Regional Office staffs has made it possible to broaden the range of Company cooperation with Bottlers.

Each Regional Office provides training for supervisors in Bottlers' plants and for salesmen in the field. They help Bottlers to more effective operation by counsel, guidance and on-the-ground assistance. They assist Bottlers in planning and executing proven and effective advertising and merchandising campaigns.

COMPANY-OWNED BOTTLING PLANTS

Total case sales of our Company-owned plants increased markedly over 1951. Bottling plants now operated by your Company, advantageously situated in areas of increasing commercial importance and large potential sales volume, are located in New York, Philadelphia, Boston, Pittsburgh, Milwaukee, Houston, Memphis, Jersey City, Nashville, Springfield, Mass., Phoenix, New Brunswick, Monroe, La., Alexandria, Va., and Teterboro, N. J.

We have continued our policy of selling Company-owned plants on an appropriate basis to independent operators whose business record, experience and status in their home communities indicate their ability to operate successfully and to increase the volume and momentum of Pepsi-Cola sales in the area. Accordingly, in 1952 our plants in New Orleans, Portland, Ore., Toledo and Baton Rouge were transferred to local operators.

As forecast in our Annual Report for 1950, the opening of our new Bronx bottling plant, our second plant in New York City, located close to the center of the metropolitan market, has resulted in substantial improvement in our service to the trade and in transportation savings.

A new bottling plant was built for our Company-owned operation in Nashville, Tenn., last year. An extension was constructed for the plant in Alexandria, Va., in 1952, and its production equipment will be further expanded during the present year. Plans for 1953 include the construction of a new plant for our Milwaukee operation and the installation of new bottling equipment in our Pittsburgh plant.

"ON PREMISE" SALES

Your Company in the last three years has made important progress in this long-unattended segment of its business by making Pepsi-Cola increasingly available to people outside their homes. Our National Accounts Department has continuously expanded Pepsi-Cola distribution in theatres, factories and offices, chain stores, restaurants, military installations, railroad stations, and similar markets. By installing Pepsi-Cola coolers and bottle and cup vending machines in thousands of public places in 1952, Pepsi-Cola became available to an incalculably large market comprised of people at work, at play, and in transit. A valuable collateral advantage of such merchandising lies in the advertising and sampling achieved by this widespread and repeated display and sale of Pepsi-Cola.

ADVERTISING

Winning enlarged consumer acceptance of Pepsi-Cola is a principal responsibility of Pepsi-Cola Company and Bottlers. During 1952 we placed forceful advertising in television, radio, national newspaper supplements and magazines and secured increased standardization and placement of promotional displays at point-of-purchase.

We invite your attention to reproductions inside the covers of this Annual Report of the new Pepsi-Cola advertising campaign which made its initial appearance in national newspaper supplements and magazines in late January, 1953, from which we have already received encouraging results and many unsolicited letters of approval.

Above, a view from the East River of the well-known Pepsi-Cola sign. At the left, fleets of trucks arrive at Pepsi-Cola's East River bottling plant, the world's largest, outlined against the skyscrapers of Manhattan.

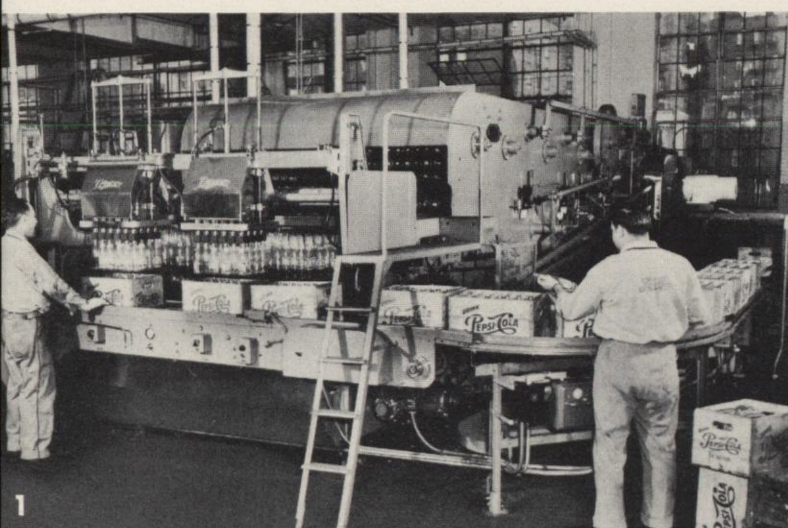
PROMOTION

Pepsi-Cola participated prominently in both the Republican and Democratic conventions, with resultant benefits to your Company in terms of sales promotion and national publicity.

Heavy sampling of Pepsi-Cola, carried on among delegates and officials from every State in the Union and from all walks of life, won friends for Pepsi-Cola in a typical yet extremely influential cross-section of the American public. In addition to this grass roots distribution, Pepsi-Cola was kept continuously available in coolers and cases at the headquarters of the various presidential aspirants.

Pepsi-Cola bottles were virtually omnipresent in television programs and in newsreel and newspaper photographic coverage of the convention activities, and numerous photographs of prominent persons enjoying Pepsi-Cola appeared in newspapers and magazines all over the nation. The extent and effectiveness of Pepsi-Cola's promotional activities during the course of the two conventions were such as to attract frequent favorable press comment in important national publications.

Approximately 300 Bottlers participated in our sales incentive program which provided prizes for placement of vending machines and for sales increases by individual route salesmen. More than half of the thousands of Pepsi-Cola Bottlers' route salesmen throughout the country attended training classes held by the Parent Company in their local areas during 1952. Our sales training course, used by more than 350 Bottlers last year, was supplemented with additional slide films and training aids.

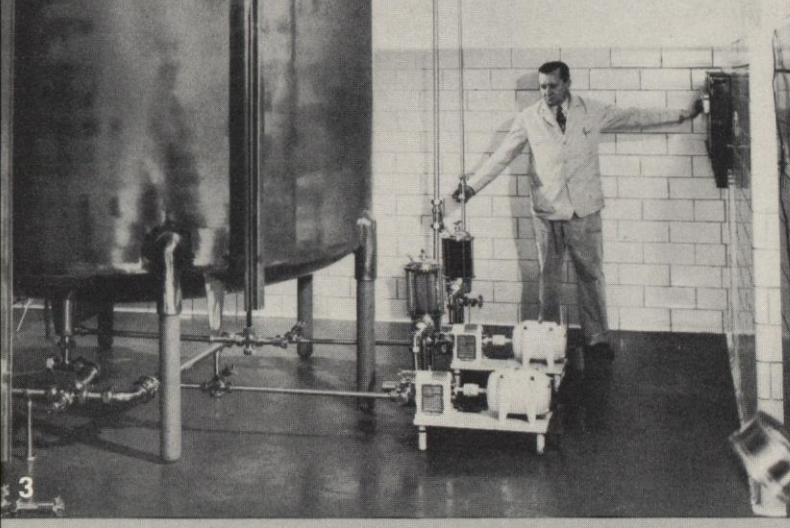


1

Pictures on these pages show our Bronx bottling plant, most modern in the world. Above: a bottle washing unit.

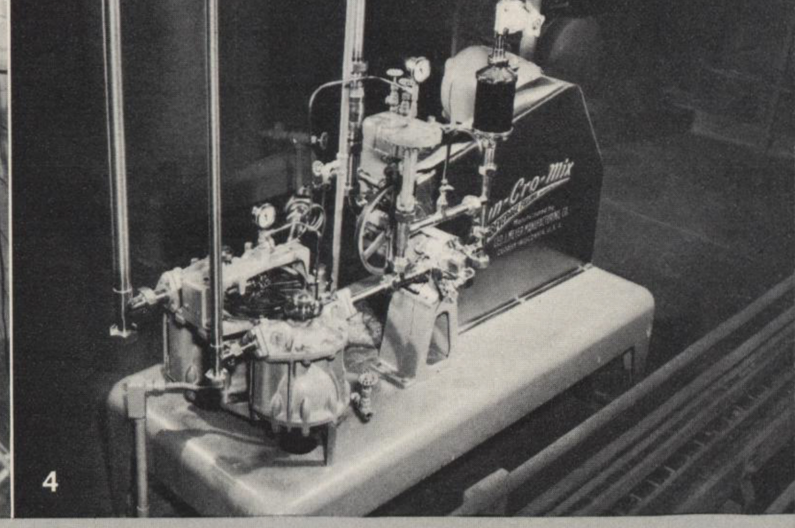
2

An inspector checks bottles for cleanliness as they leave this specially-built washing unit at the rate of 315 per minute.



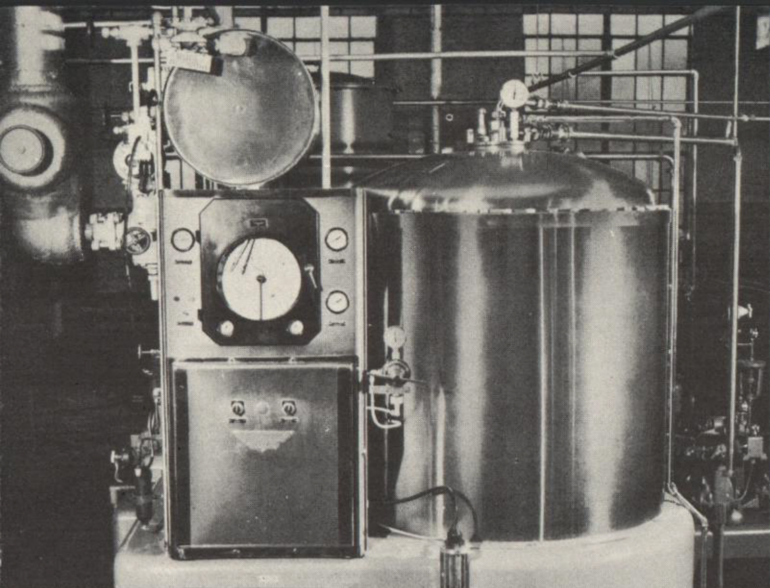
3

Pepsi-Cola syrup, stored in four 3,800-gallon stainless steel tanks like the one above, is piped into the bottling room.

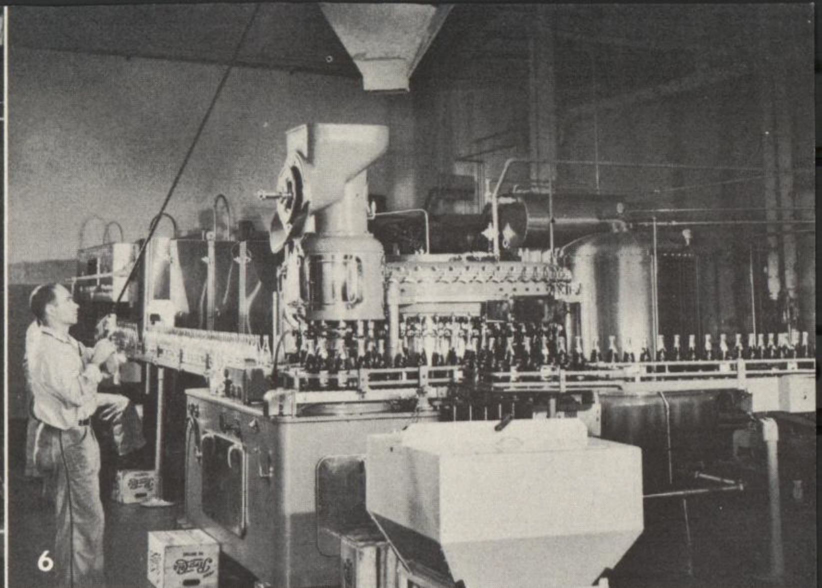


4

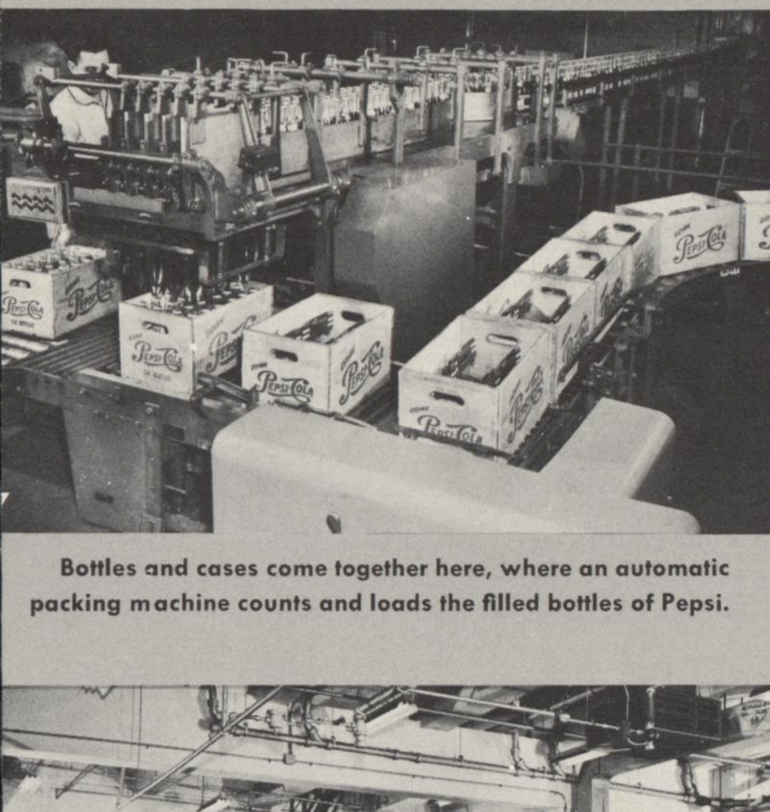
A syncrometer measures out syrup and purified water in the exact proportions required for a uniform, delicious drink.



The syrup and water are blended in a giant carbo-cooler which carbonates the beverage and also cools it for bottling.



Traveling along a conveyor belt, clean bottles pass through a 56-spout filler and are capped by a crowning machine.



Bottles and cases come together here, where an automatic packing machine counts and loads the filled bottles of Pepsi.

Cases, packed at the rate of 700 per hour, are inspected as they move down a conveyor belt to the loading platform.

The use of pallets and fork lifts makes it possible to load route trucks with 400 cases of Pepsi-Cola within five minutes.

Fleet of 75 matched trucks is garaged inside plant, occupying 40,000 square feet of space, next to the loading area.

Development Outside the United States

Pepsi-Cola's international popularity, keeping pace with its domestic success, was increased in 1952 by the gain in reported case sales of 185 overseas franchised Bottlers and 10 Company-owned bottling operations outside the United States. Reported case sales by export Bottlers reached an all-time high, representing an increase of 15 per cent over 1951 and a full 50 per cent gain over 1950. Export sales have long been a source of substantial profit to Pepsi-Cola Company.

Your Company continued in 1952 its policy of expanding vigorously into any portion of the globe where local Bottlers, meeting Pepsi-Cola Company's standards, indicated the ability to conduct Pepsi-Cola bottling operations in their respective markets.

By the end of 1952, Pepsi-Cola was distributed in and was winning a constantly widening consumer acceptance in 45 countries outside the United States. Eighteen new Pepsi-Cola bottling plants were opened outside the United States in 1952, bringing Pepsi-Cola to markets comprising additional millions of persons.

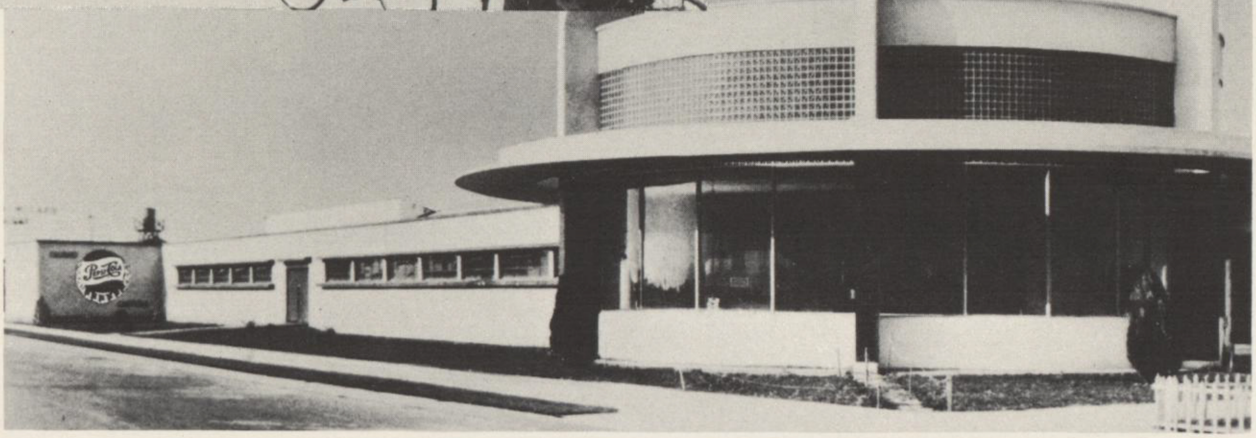
CANADA

Case sales of our wholly-owned Canadian subsidiary increased 25 per cent in 1952 over the preceding year, representing a 47 per cent gain over 1950. Profits before taxes in 1952 were more than double the preceding year's. This performance, reflecting our increasing development of the Canadian market, becomes more significant when it is considered that the soft-drink industry as a whole, according to trade reports, has made no appreciable gains in Canada during the past two years. As indicated in last year's Annual Report, your Management believes strongly in the future of Pepsi-Cola in Canada, and that belief has been rewarded by increased sales and earnings for the second consecutive year.

In order to keep abreast of and to anticipate increasing demand, Canadian Pepsi-Cola Bottlers and Company-owned plants in 1952 embarked on extensive rehabilitation and expansion programs designed to increase productive plant capacity and to make necessary additions to our basic tools: bottles, cases, vending machines, coolers, and trucks.

With an eye to the future of the great Canadian Pacific Northwest, where huge hydroelectric developments, with resulting industrial growth and population gains, are creating new market opportunity for Pepsi-Cola, your Company in 1952 established a new concentrate manufacturing plant in Vancouver, B.C. Establishment of new Pepsi-Cola facilities in Canada, however, was by no means limited to any one geographical region. A total of nine new and strategically located bottling plants were opened in Canada in 1952, placing Pepsi-Cola in a more favorable position than ever before to win an increasingly large share of the fast-growing Canadian market.

Sales appeals in German boost sales of Pepsi-Cola in Wiesbaden. Our Frankfurt plant started distribution here in March, 1952.



The globe-girdling range of Pepsi-Cola's overseas operations is seen in the above street scene in Singapore.

One of Pepsi-Cola's modern bottling plants in Mexico is this handsome building at Torreon, Coah.

GREAT BRITAIN

Your Management has just concluded a significant franchise agreement with Schweppes, Ltd., the well-known leading British producer of soda water, tonic and mixers. Under the terms of that agreement, one of your Company's wholly-owned subsidiaries will bottle and distribute Schweppes products in North America. Important potential profits are inherent in this operation.

A second franchise agreement with the Schweppes organization is now under negotiation and should shortly be concluded. Under that agreement Schweppes will bottle and distribute Pepsi-Cola in many localities in England. This should greatly enhance Pepsi-Cola prestige and sales volume there. Our wholly-owned British subsidiary, Pepsi-Cola, Ltd., will continue to manufacture Pepsi-Cola concentrate which Schweppes will purchase for that operation.

MEXICO

Pepsi-Cola's continuing development of the Mexican market resulted in increased sales of Pepsi-Cola south of the border in 1952. Pepsi-Cola Bottlers opened three important new plants in Mexico in 1952: in Oaxaca, Oaxaca; Valle de Allende, Chihuahua; and Iguala, Guerrero.

Your Management takes satisfaction in reporting that the rapid sales expansion achieved by Pepsi-Cola in Mexico last year, and the extensive new plant construction scheduled for 1953, should enable Pepsi-Cola to enhance the popularity and prestige which it already enjoys in that expanding market.

ELSEWHERE

Among the outstanding additional bottling operations opened during 1952 were the plants in Beirut, Lebanon and Lima, Peru. It is expected that the bottling of Pepsi-Cola in France will begin in the near future. Pepsi-Cola's French concentrate plant commenced operation in the early part of 1952.

THIS YEAR

Another 25 new Pepsi-Cola bottling plants are scheduled to commence operations outside the United States during the current year. With these new plants added to the far-flung network of Pepsi bottling operations already functioning abroad, export sales and profits are expected to continue their growth.

TECHNOLOGICAL ADVANCES

Your Company, ever aware of the advantages to be derived from the utilization of new techniques and new equipment, continued in 1952 its policy of purposeful research leading to the installation, where advantageous, of new devices for improved manufacturing methods.

The Radio Corporation of America, with the cooperation of Pepsi-Cola Company, has developed an electronic bottle inspector, suitable to our bottle sizes, which constantly safeguards the purity of bottled Pepsi-Cola by inspecting up to 150 bottles a minute with three beams of light coordinated with ten electronic "eyes." The first machine is now operating at our Company-owned Philadelphia plant.

The Pepsi-Cola research division has for some time been conducting extensive research dealing not only with our product but with other extracts, juices and concentrates. In this connection it has undertaken continuous studies dealing with problems of bacteriology and biochemistry and is conducting experiments in sterilization by means of radiation, among others.

MAINTAINING PEPSI-COLA QUALITY

Pepsi-Cola's seven mobile traveling laboratories and their scientific staffs continued to survey Pepsi-Cola bottling plants throughout the country in the course of the past year, checking the product and manufacture, advising Bottlers on water purification, bottle cleansing, and kindred subjects. After the damaging midwestern floods in the spring of 1952, these traveling laboratories and crews helped Bottlers to restore their operations to normal with due safeguard of quality.

EFFICIENCY GAINS

At the same time that profitable gains in sales volume were being made on every front, your Company was also effecting important economies benefiting both itself and its Bottlers. Careful reappraisal of certain operations resulted in the use of new materials sources and the reallocation of manufacturing processes.

By rendering technical assistance where required, Pepsi-Cola Company in 1952 assisted its franchised Bottlers to effect important economies in their local operations. At the suggestion of the Parent Company, based on successful experience, many Bottlers introduced new techniques such as palletization and the use of automatic case loaders and unloaders.

This electronic bottle inspector, newly developed by RCA and Pepsi-Cola, automatically inspects eight, ten or twelve-ounce bottles of Pepsi-Cola. In addition to guaranteeing product purity, the new device makes it possible to detect equipment breakdowns before any serious damage is done. The machine's rate of inspection is 150 bottles per minute.

EMPLOYEES

The success of a company like ours with world-wide distribution depends in large measure upon the loyal and enthusiastic effort of its employees at all levels.

Therefore, it is gratifying to report that Pepsi-Cola Company's relations with the 2,300 men and women employed in all the Company's plants and offices were generally harmonious during the last year.

Progressive policies designed to protect the welfare and security of Pepsi-Cola employees and their dependents continued in effect during 1952, including life insurance in force under the Company's group insurance and death benefit plans, and hospitalization insurance. A number of employees or their beneficiaries are receiving retirement payments under the Company's retirement plan.

In our Annual Report for 1951 we described the introduction of a Stock Option Plan, designed to give executive personnel the opportunity to purchase with their own funds stock of the Company on an investment basis with payment to be made over an extended period of time. This Plan, under which 200,000 shares of the Company's stock were made available for the granting of options by the Board of Directors to certain key employees of the Company, was approved at the Annual Meeting of Stockholders held May 7, 1952.

The Plan provides that the options which may be granted will be at prices to be fixed by the Board in each instance but which shall never be less than 85 per cent of the market price of the stock on the New York Stock Exchange on the day the option is granted.

Under this Plan six key executives were granted options to purchase up to a total of 90,000 shares at a price of $9.125 per share (the then market price), and later 18 additional key employees were granted options to purchase up to a total of 72,000 shares at a purchase price of $9.2625 per share (95 per cent of the then market price). There are still 38,000 shares of the original 200,000 covered by the Plan which can be optioned out. The Board has expressly limited to forty-eight the number of key employees who may receive options under the Plan.

The recipients of Options under the Plan are selected by a Committee of the Company's Board of Directors, themselves ineligible to receive Options. The basic purpose, in making the selections, is to give incentive and to insure retaining for the Company the services of the Optionee. The Committee attempts to make certain, so far as possible, that in each case the value of the Option granted is reasonably related to the value of the Optionee's services.

EXECUTIVE APPOINTMENTS

Stephen J. Gullo has been named Vice-President in charge of the Product and Quality Control Department. Mr. Gullo joined Pepsi-Cola in 1947.

Donald M. Kendall has been named Vice-President in charge of National Accounts and Fountain Sales. Mr. Kendall joined Pepsi-Cola in 1947.

Henry E. McGovern has been named Vice-President in charge of the Equipment Department. Mr. McGovern joined Pepsi-Cola in 1940.

Here four of Pepsi-Cola's 2,300 employees are shown helping to bring Pepsi-Cola to more and more people.

FUTURE

The recent lifting of price ceilings has enabled many of our Bottlers and some of our own bottling plants to make price adjustments, long overdue, which will make it possible for Bottlers and Company-owned plants to add needed facilities to franchises and to make possible an enlarged merchandising effort with resultant increase in sales and profit.

With the growing progress of our Bottlers, with the addition of new plants and facilities at home and abroad, with expanded advertising and merchandising effort and a steadily increasing consumer acceptance of today's Pepsi-Cola, we believe your Company will give a good account of itself in 1953.

Respectfully submitted,

By Order of the Board of Directors

Alfred N. Steele

ALFRED N. STEELE

President

March 30, 1953

Notice of Annual Meeting

A proxy is enclosed with this Annual Report for 1952. The Annual Meeting will be held on May 6, 1953, in Wilmington, Delaware. We sincerely hope that you can attend, but if this is not possible please sign and mail the enclosed proxy.

Financial Statements

PEPSI-COLA COMPANY AND

CONSOLIDATED BALANCE SHEET

ASSETS	DECEMBER 31 1952	1951	1950
CURRENT ASSETS:			
Cash	$ 9,594,722	$ 8,390,255	$ 6,587,372
United States and Canadian Government obligations (market value—1952, $6,190,159)	6,188,743	1,816,770	4,769,442
Notes and accounts receivable (less allowance for doubtful receivables — 1952, $111,868; 1951, $99,760; 1950, $124,198)	2,340,433	2,123,114	1,303,670
Inventories:			
Finished, in-process, raw materials, and supplies	4,081,293	4,726,087	3,727,920
Vending equipment held for resale	1,254,479	1,482,571	860,403
Total current assets	$23,459,670	$18,538,797	$17,248,807
MISCELLANEOUS ASSETS:			
Notes and accounts receivable—not current	$ 644,156	$ 449,985	$ 393,678
Bottling machinery, etc., held for resale	340,172	555,115	488,758
Investment in, and advances to, subsidiaries not consolidated	506,213	508,861	491,852
Cost of capital stock of the Company acquired for an officer (1952, 8,500 shares to be paid for by December 31, 1956; reduced, by payment, from 16,000 shares at December 31, 1951 and 1950)	91,095	171,420	171,420
Other	679,537	425,027	398,474
Total miscellaneous assets	$ 2,261,173	$ 2,110,408	$ 1,944,182
PROPERTY, PLANT, AND EQUIPMENT:			
Land, buildings, equipment, leasehold improvements, etc. —at cost (less depreciation and amortization—1952, $6,861,781; 1951, $6,042,235; 1950, $4,735,851)	$10,498,294	$11,559,221	$ 8,149,331
Bottles and cases on hand and with trade (at estimated depreciated values)	3,482,212	3,485,213	2,790,573
Total property, plant, and equipment—net	$13,980,506	$15,044,434	$10,939,904
DEFERRED DEBIT ITEMS:			
Prepaid insurance, taxes, etc.	$ 301,676	$ 307,208	$ 310,905
Advertising materials and expenses	1,063,392	810,769	741,209
Other	94,204	145,629	174,864
Total deferred debit items	$ 1,459,272	$ 1,263,606	$ 1,226,978
TRADEMARKS, FORMULAS, AND GOODWILL	$ 1	$ 1	$ 1
Total	$41,160,622	$36,957,246	$31,359,872

Reference is made to the accompanying Notes to Financial Statements starting at page 17.

CONSOLIDATED SUBSIDIARIES

DECEMBER 31, 1952, 1951 AND 1950

LIABILITIES	DECEMBER 31 1952	1951	1950
Current Liabilities:			
Notes payable (including current installments on long-term obligations)	$ 399,300	$ 396,694	$ 512,000
Accounts payable and accrued	2,144,449	2,313,539	2,205,224
Accrued taxes—estimated:			
United States and foreign income taxes (less, in 1950, U. S. Treasury tax notes—$1,028,600)	3,824,014	1,544,142	596,970
Other taxes	681,135	576,161	469,977
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	$ 7,048,898	$ 4,830,536	$ 3,784,171
Other Liabilities:			
Note payable to insurance company, 3%, due June 1, 1963,payable $333,000 annually (current installment included above)	$ 3,331,000	$ 3,664,000	$ 3,997,000
Other notes, and mortgages assumed	249,250	474,375	125,000
Customers' deposits on bottles and cases	1,529,548	1,170,966	1,099,898
Total other liabilities	$ 5,109,798	$ 5,309,341	$ 5,221,898
Capital Stock and Surplus:			
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding, 5,752,659.57 shares (including 654.57 shares in treasury—see below)	$ 1,917,553	$ 1,917,553	$ 1,917,553
Capital surplus	5,535,125	5,535,125	5,535,125
Earned surplus (since August 1, 1939)	21,559,956	19,375,399	14,911,833
Total	$29,012,634	$26,828,077	$22,364,511
Less treasury stock (654.57 shares, at cost)	10,708	10,708	10,708
Total capital stock and surplus	$29,001,926	$26,817,369	$22,353,803
Total	$41,160,622	$36,957,246	$31,359,872

Reference is made to the accompanying Notes to Financial Statements starting at page 17.

SUMMARY

CONSOLIDATED INCOME for the years ended December 31, 1952, 1951 and 1950

	YEAR ENDED DECEMBER 31		
	1952	1951	1950
Gross Profit on Sales	$35,002,415	$30,216,383	$23,765,879
Advertising, Selling, Shipping, General and Administrative Expenses	27,232,800	26,246,768	21,766,074
Profit From Operations	$ 7,769,615	$ 3,969,615	$ 1,999,805
Other Income	400,698	559,650	855,483
Gross Income	$ 8,170,313	$ 4,529,265	$ 2,855,288
Income Charges	336,187	336,375	310,678
Income Before Deducting Provisions for United States and Foreign Income Taxes	$ 7,834,126	$ 4,192,890	$ 2,544,610
Provisions for United States and Foreign Income Taxes—Estimated:			
United States (no excess profits tax)	$ 2,625,000	$ 900,000	$ 943,000
Foreign	1,328,764	660,709	329,691
Total	$ 3,953,764	$ 1,560,709	$ 1,272,691
Net Income	$ 3,880,362	$ 2,632,181	$ 1,271,919

CONSOLIDATED EARNED SURPLUS for the year ended December 31, 1952

Earned Surplus, January 1, 1952	$19,375,399
Net Income for the Year	3,880,362
Surplus Credit:	
Refund of customs duties paid in prior years, less net of expenses and related tax reduction	314,422
Total	$23,570,183
Dividends Paid (35¢ a share)	2,010,227
Earned Surplus, December 31, 1952 (Since August 1, 1939)	$21,559,956

Reference is made to the accompanying Notes to Financial Statements starting on page 17.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1952

1. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.

2. The current assets and liabilities, total assets and liabilities, earned surplus, and net income included in the 1952 consolidated financial statements for foreign subsidiaries are as follows:

	Canadian subsidiary	Cuban subsidiary	Mexican subsidiaries	French subsidiary	Brazilian subsidiary
Current assets	$1,500,092	$ 370,352	$ 645,188	$242,319	$66,573
Current liabilities	404,891	74,980	211,061	15,417	16,361
Total assets	3,022,760	1,557,949	1,089,910	368,597	89,169
Total liabilities	516,709	158,008	211,061	15,417	16,361
Earned surplus (deficit)	228,334	(495,034)	844,458	(26,625)	(1,511)
Net income (loss) for year	*384,699	(19,346)	*1,152,535	*4,950	(1,511)

**After deducting United States and foreign taxes of parent company on income from subsidiary.*

The assets (except for property, plant, and equipment at December 31, 1951 and 1950) and liabilities of these subsidiaries have been converted into United States dollars at the current rates of exchange at the respective year ends; income and expenses (except for depreciation for 1951 and 1950) have been converted at rates prevailing during the respective years. Property, plant, and equipment have been included in the consolidated balance sheet at December 31, 1951 and 1950 at amounts which represented their United States dollar equivalent at the time of acquisition or origin; provisions for depreciation for 1951 and 1950 have been converted at rates prevailing at time of acquisition of the related assets. The result of the change in 1952 in the method of converting property, plant, and equipment, and depreciation thereon, was not material.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

3. Because of continuing stringent foreign exchange restrictions, the accounts of the British and Netherlands subsidiaries are excluded from the consolidated financial statements. The current assets and

liabilities and total assets and liabilities of these subsidiaries, and the parent company's equity, at December 31, 1952, and the subsidiaries' net income for the year are as follows:

Current assets	$1,156,577
Current liabilities	638,170
Total assets	2,031,652
Total liabilities	664,823
Parent company's equity in net assets	1,366,829
Net income for year	135,224

4. The Federal income and excess profits tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1944; the tax returns for the years 1945 to 1949, inclusive, are under examination.

5. On May 7, 1952, the stockholders approved the adoption of a Stock Option Plan under which 200,000 shares of the Company's capital stock were made available for the granting of options to executives. At December 31, 1952, options had been granted for 90,000 shares at $9.125 a share (market price on the date granted) and for 72,000 shares at $9.2625 a share (95% of market price on the date granted). These options, none of which had been exercised at December 31, 1952, are exercisable in various amounts and at various times not later than August 27, 1957.

6. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1952 approximately $8,625,000 of earned surplus was free of such restrictions.

7. At December 31, 1952 the Company and consolidated subsidiaries were contingently liable as guarantors of bank loans, principally to various franchised Bottlers, aggregating $2,561,357.

8. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to $1,801,121 in 1952, $1,501,785 in 1951, and $893,076 in 1950.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the balance sheet of Pepsi-Cola Company and consolidated subsidiaries as of December 31, 1952, and the related summaries of consolidated income and earned surplus for the year then ended. As to the companies other than the Canadian subsidiary our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary amount to approximately 7% of the consolidated total, and its gross profit on sales and net income for the year are approximately 9% and 10%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summaries of consolidated income and earned surplus, with their notes, present fairly the financial position of the companies at December 31, 1952, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 19, 1953.

Pepsi-Cola

refreshes without


filling
Pepsi-Cola
Pepsi-Cola
The Light Refreshment


Pepsi-Cola
SPARKLING
Pepsi-Cola